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September 6, 2005

Stephen J. Wright
Administrator & Chief Executive Officer
BPA Power Administration
Attn: Communications – DM-7
P.O. Box 14428
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Subject: Comments on TIG and Grid West
Open Comment Period - Decision Point 2

Dear Mr. Wright:

We have received and reviewed your letter of August 4, 2005, requesting comments on TIG and Grid West. We are very familiar with both the Grid West and TIG proposals in that we have had representation in both the Grid West RRG and the TIG Steering Committee.

We have reviewed and support the Public Power Council's (PPC) comments on TIG and Grid West, and therefore will not repeat them here. Before addressing the specific questions asked in your August 4, letter, we offer the following general comments and observations:

1. Grays Harbor PUD supports the TIG Approach. We have come to this conclusion because the TIG approach is far less risky than the Grid West approach. We believe that TIG's incremental approach to improving the Northwest's transmission system is significantly less costly than the Grid West approach while capturing all cost effective benefits of the Grid West approach.
2. Grays Harbor PUD is uncomfortable with Grid West's governance. The Region should not give its authority to literally spend hundreds of millions of dollars on a new entity that does not answer to ratepayers. Grid West will be a separate, regional, FERC-jurisdictional utility that takes on functions historically performed by local utilities or BPA. This new, expensive Grid West entity is not needed.
3. There is agreement that transmission problems need to be fixed and enhancements made that would improve reliability and efficiency of system operation. We do not dispute that there will be cost consequences for needed improvements to the transmission system and that the end user will ultimately have to pay those costs. However, Grays Harbor PUD has a fiduciary responsibility to its ratepayers to try to

keep those cost increases to the absolute minimum while achieving the needed improvements to the Region's transmission system. This should be BPA's goal also.

4. We observe that many load serving entities who do not have profit motives support TIG approach, while supporters of the Grid West approach are entities that have solely a profit motive or a load serving/profit motive. In regards to our transmission system operation and its future improvements, we believe that a profit motive is inconsistent with the best interest of ratepayers and is not good public policy. Transmission systems, which were historically built to serve load are not conducive to being transformed into market serving systems, the two are at cross-purposes.
5. We observe some entities that favor Grid West have special objectives that Grid West may or may not achieve for them like: relief from market power situations in certain transmission markets, ancillary services markets, perception of better access to transmission upgrades to remote loads, the elimination of pancake rates (this has not occurred in any RTO to date), or other reasons not directly related to transmission operation/improvements. It is unreasonable to support Grid West simply because some entities believe they can achieve their special objectives, which if realized would only come at the expense of Grays Harbor PUD ratepayers. We are of the opinion that these can all be achieved through TIG for a lot less cost to our utility.
6. After reviewing the available data, the cost/benefit of a Grid West operation is questionable. As you know Grays Harbor participated in the Henwood Study which showed high costs and low benefits so we do not agree with many of the Grid West risk/rewards analysis assumptions (improved tree trimming and crew dispatch benefits for example do not pass the laugh test, and certainly can be achieved without a new Grid West entity). We believe that there is double counting of benefits and do not believe that one type of operation of the transmission grid will necessarily significantly improve reliability over another.
7. We do see the necessity of many parts of the TIG proposal that are cost effective and should be implemented including:
 - Regional "one utility" planning with a construction backstop;
 - Improvement in reliability;
 - One stop shopping through a common OASIS; and
 - Market monitoring.
8. It's apparent that BPA desires to implement the concept of Combined Control Areas (CCA) for the primary purpose of increasing transmission reliability and a secondary purpose of possible reserve and regulating sharing benefits among the CCA entities.

However, except for some differences related to ancillary services markets, this CCA concept is for all intents and purposes the same between Grid West and TIG (or for that matter a do nothing alternative). We believe that the question of the advisability of a CCA is separate from the question of implementing the Grid West or TIG approach.

The efficiency gains from centralizing reserve and regulating markets are largely achieved today (and are being expanded) through the Northwest Power Pool. Little or no gains would be made in this area with a CCA. But many believe a CCA could be created right now without Grid West if the region were so inclined.

On the issue of reliability, we observe that coordinated operation of the transmission system during a pending or current system emergency may not be as good as it once was and needs attention. The Security Coordinator (PNSC), concept was developed to address this issue and may not yet be developed to the point that it is capable of dealing with all issues.

We have heard BPA express its view that the operators of the CCA will have a better “feel” for the system and thus better able to respond to the emergency. This may be a true statement to some limited extent. However, all the proposals fall short in that all existing control centers will not be a part of the CCA. Without that, the desired degree of reliability improvement will not be achieved. An outlying control area that is not responding to the emergency, until the PNSC acts, will surely limit the reliability improvement. Similarly, the proposals do not give direct control of resources to the CCA operator on a daily basis. Without such direct control the “feel” that BPA is seeking will not be achieved (and it is highly unlikely that any entity will give up this direct control).

We suggest a different approach be taken:

- Enhance the PNSC, or
- Structure a reliability agreement among all control areas in a CCA like model solely for the purpose of emergency management with perhaps a voluntary ancillary services component.

Below are our answers to the specific questions raised in your August 4th letter.

Q1. “Do you agree with BPA’s goal of applying the “one utility” vision to the region’s transmission system?”

Yes. We have needed for a long time a comprehensive regional transmission plan. With the transmission system so highly interconnected, a one utility look is the only way that a high quality plan can be achieved.

Q2. *"Please describe how well you think each alternative achieves the six benefits described on pages 2-3 of this letter (planning and expansion, reliability, ATC, congestion management, market monitoring, and "one stop" stopping)."*

Planning and Expansion. TIG will result in a superior plan more quickly than Grid West. TIG starts now, while Grid West requires additional time to get started. In addition, TIG is superior to Grid West because of transmission owner's involvement in developing the plan and with provisions to force the plan to a conclusion in a timely manor.

Reliability. Any Combined Control Area (CCA) will be very similar with either TIG or Grid West approach. Further, as currently designed, we question whether the reliability improvements that BPA seeks will be achieved.

Available Transmission Capacity (ATC). There is very little difference between TIG and Grid West in this area.

Congestion Management. For firm transmission, it is our view that the transmission owner must do whatever is necessary to clear the congested path, pay the cost, and rate-base the expense. When the path cannot be cleared this most likely means that load curtailment is necessary. We believe that this is no more complicated than the proposed re-dispatch model in Grid West. For those using non-firm transmission, the non-firm user should be curtailed and would be responsible to re-dispatch resources or cut its load.

Market Monitoring and One Stop Shopping. There is very little difference between TIG and Grid West in this area. Both approaches achieve all the objectives outlined in the August 4th letter.

Q3. *"How well do you believe the Grid West and TIG proposals meet the goal of effective decision-making that is not unduly influenced by market participants?"*

Overall, we believe the TIG approach to be the most effective. With TIG's lower total cost, better control over the incurrence of cost, and the absence of volatile markets comprise a better policy choice for the Northwest than Grid West.

Q4. *"If BPA supports the TIG proposal, are you committed to all of the elements of the TIG proposal? If not, which ones are troubling? And why?"*

We are committed to achieving most objectives outline in the TIG proposal. However, as discussed above, the concept of Combined Control Areas (CCA) under both Grid West and TIG do not have a positive benefit/cost ratio. The objective of improving reliability can be achieved less costly using a different approach like improving the Security Coordinator (PNSC) function.

Q5. "If the TIG proposal were to be chosen, how likely would it be that the proposal would be successfully implemented?"

We believe that the TIG approach is likely to be successfully implemented. We observe some entities that favor Grid West have special objectives that they perceive that Grid West will offer them. It is unreasonable, and poor public policy to support Grid West where their special objectives at the expense of other utility ratepayers. TIG's tried and proven incremental approach is superior to Grid West's all or nothing approach.

Q6. "If BPA supports Grid West, are you committed to all of the elements of the Grid West proposal? If not, which ones are troubling? And why?"

No, we would not support Grid West. We are uncomfortable with Grid West's governance. The Region should not give its authority to literally spend billions of dollars to a new entity that does not answer to ratepayers. Grid West will be a separate, regional, FERC-jurisdictional utility that takes on functions historically performed by local utilities or BPA. Also, as discussed above, the concept of Combined Control Areas (CCA) under both Grid West and TIG do not have a positive benefit/cost ratio. The objective of improving reliability can be achieved less costly using a different approach like improving the Security Coordinator (PNSC) function.

Q7. "If the Grid West proposal were to be chosen, how likely would it be that the proposal would be successfully implemented?"

I question how fast Grid West will be implemented with its all-or-nothing kind of approach and with recently filed litigation that challenges BPA's process to move forward with Grid West. On the other hand, TIG's incremental approach can move forward quickly with willing participants even if it does not include one-hundred percent of all Northwest utilities.

Q8. "If you are a supporter of the TIG alternative, please explain why adopting the TIG alternative will be in the collective best interests of all of BPA's customers who depend on the Northwest transmission grid and of other stakeholders who have an interest in regional transmission issues."

We support TIG for the reasons stated in the first portion of this letter and for those reasons stated in PPC's comments.

Q9. "If you are a supporter of the Grid West alternative, please explain why adopting the Grid West alternative will be in the collective best interests of all of BPA's customers who depend on the Northwest transmission grid and of other stakeholders who have an interest in regional transmission issues."

We do not support Grid West for the reasons stated in the first portion of this letter and for those reasons stated in PPC's comments.

Q10. *"The RRG recently completed an examination of the benefits of the Grid West proposal. Do you have additional views on the benefits of the Grid West proposal that you have not already brought to our attention?"*

Grid West's benefits are over-stated. After reviewing the available data, the cost/benefit of a Grid West operation is questionable. We do not agree with many of the Grid West risk/rewards analysis assumptions. We believe that there is double-counting of benefits and do not believe that one type of operation of the transmission grid will necessarily significantly improve reliability over another.

Q11. *"Do you have additional views on the estimated costs of the TIG and Grid West proposals?"*

TIG will cost about one-third less than Grid West while capturing all cost effective benefits of the Grid West approach.

Q12. *"What 2-3 improvements might you suggest for each alternative?"*

See our comments above on Combined Control Areas (CCA).

Q13. *"The Grid West and TIG alternatives seem to be quite similar. Please suggest how these alternatives may converge?"*

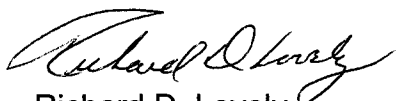
BPA should move forward with the TIG approach, and invite those Grid West supporters into the TIG process.

Q14. *"Where do you think the region will be in ten years under each alternative?"*

Under the TIG approach the Region will move forward now on improvements to the transmission system and its operations. Under Grid West we will just see much higher costs with benefits only going to a select few.

Thank you for the opportunity to make comments on this very important and far reaching policy decision that is before the Northwest Region.

Sincerely,



Richard D. Lovely
General Manager